

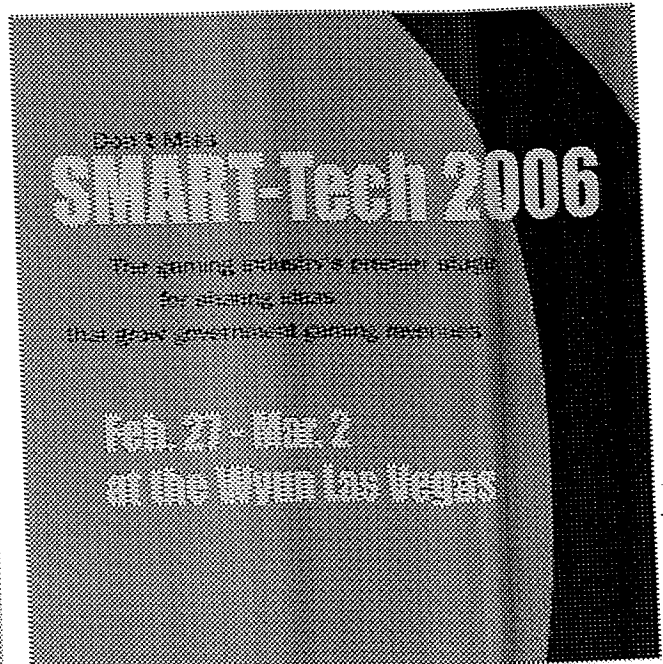
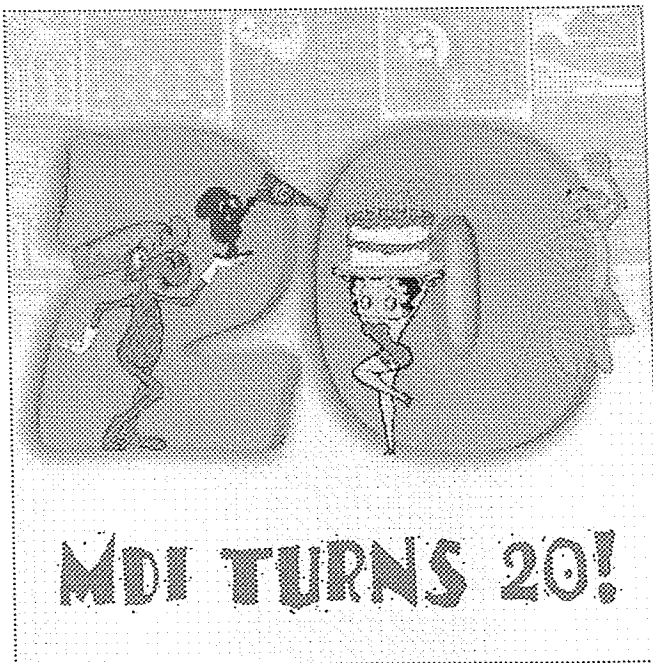
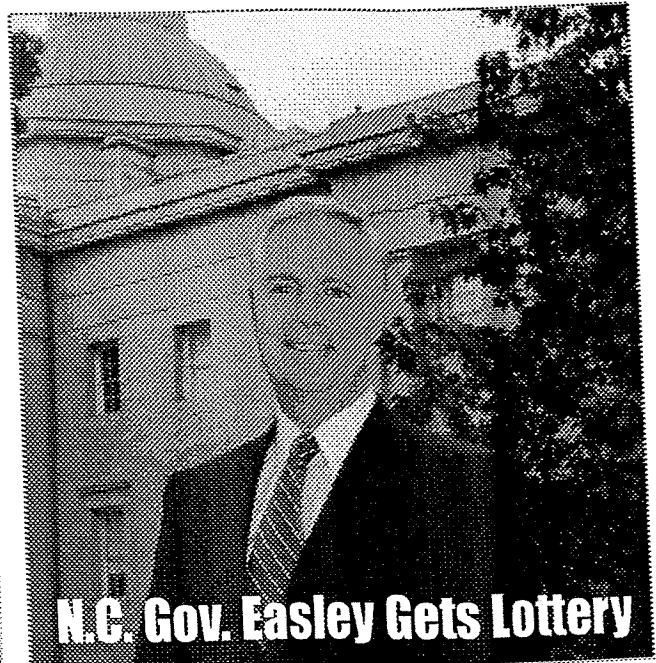
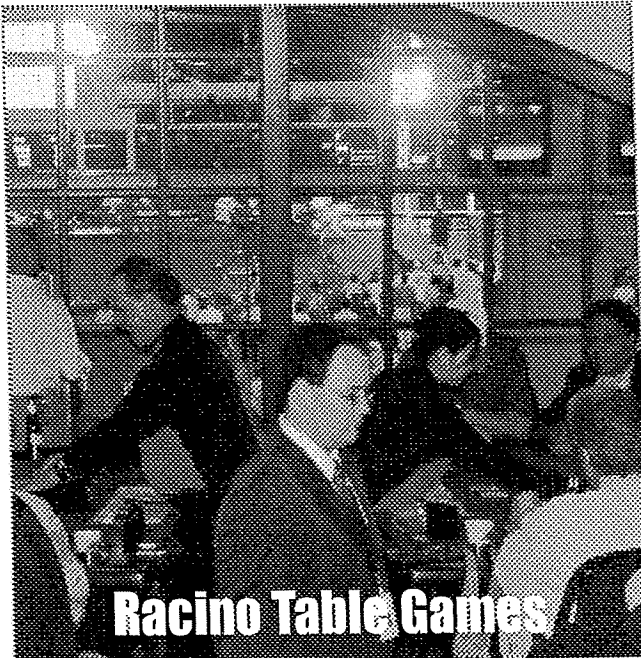
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October 2005

# PUBLIC GAMING

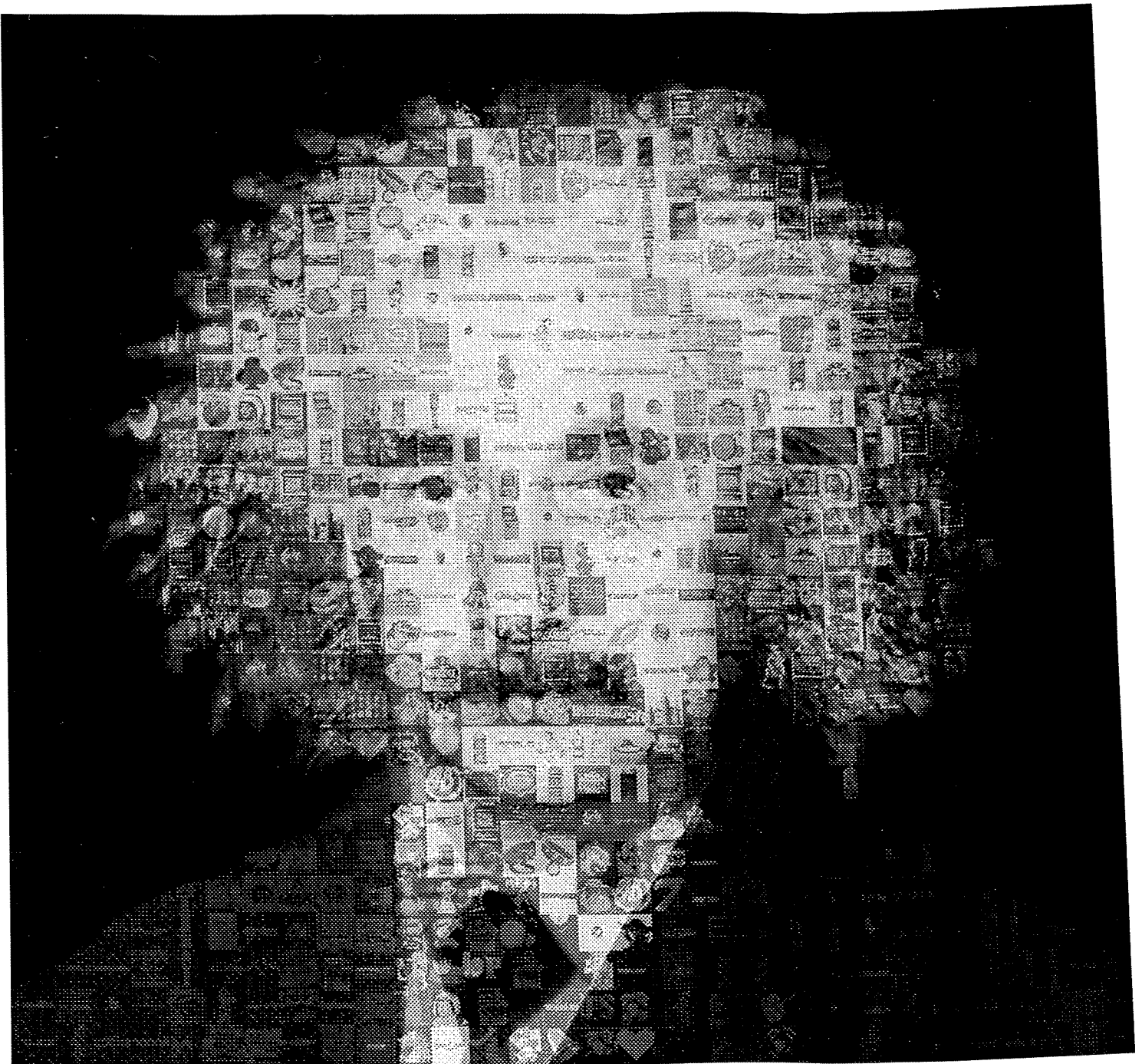
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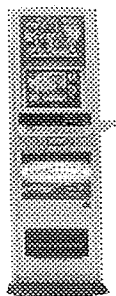
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# PUBLIC GAMING INTERNATIONAL



On the Cover:  
Prairie Meadows racetrack,  
Altoona, Iowa; North Carolina  
Governor Michael Easley.

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MDI



Steve Saferin



Linda Saferin

## MDI: 20 Years and Growing

Twenty years after its launch, MDI is one of the most powerful forces in the lottery industry. Today, the company started by Steve and Linda Saferin controls 130 licensed properties and a significant portion of U.S. instant ticket sales, has been drawn under the umbrella of lottery giant Scientific Games and plays an active role in many of the U.S. lottery industry's most successful promotions.

Could this level of success be what the Saferins envisioned when they started the company?

"I'm not really sure what our expectations were in the beginning," said Steve Saferin, president and CEO of MDI. "Clearly, from the vantage of October 2005, we've probably achieved far more success than I ever could have imagined, had I imagined it, back 20 years ago... The fact that we're here is very gratifying. It's the product of a lot of people's hard work, some good fortune and some good ideas."

### Reshaping an Industry

Good ideas seem to be the real key to MDI's success, and at MDI, the ideas start at the top.

"[MDI Vice President] Bob Kowalczyk has always called Steve the Idea Guy," said Linda Saferin. "That's exactly what he is. That's how the company got started and that's how it grows because he's the idea guy and takes those risks."

The ideas that have come out of Steve Saferin have done much more than just grow his company, they've helped to grow the entire

Lottery industry.

"The instant business has grown significantly over the last five years," said Mr. Saferin. "The licensing part of the instant business has grown even more rapidly than the instant business. It's playing a disproportionate role in the growth of the instant business."

In 2000, U.S. instant ticket sales tallied approximately \$16 billion, of which licensed games made up approximately one-percent. As recently as 2004 U.S. instant sales were approximately \$22 billion with licensed games making up about 4.5 percent. In 2005 instant sales grew to about \$27 billion with licensed games comprising 9 percent of the total.

Licensed games have grown to the point where they are now an accepted part of almost every U.S. lottery's instant game marketing plan.

Clearly, the mind of Steve Saferin is one of the keys to MDI's success, but it isn't the only one. As Mr. Saferin mentioned, there's been a lot of hard work involved.

Of course, it doesn't hurt when the hard work is being done by people who have a great deal of both industry knowledge and industry experience. Nearly every executive at MDI, with the exception of Steve and Linda Saferin, have actually worked in an upper-level executive position at a lottery. That fairly unusual staffing situation has given the company unique access to lottery customers, as well as a unique understanding of the needs of its lottery customers.

### The Early Years

The story of MDI actually began while Steve was director of programming at ESPN, living in Connecticut. One day he got a call from an independent producer living in Fort Worth, Texas who was trying to get a bull-riding event on ESPN. The producer was the future Mrs. Linda Saferin. The two eventually quit their jobs, started MDI, and got married.

### Most Successful Licensed Product

With upwards of 130 licensed properties it can't be easy to pick one as MDI's most successful licensed product. Skill, Public Gaming International felt it was important to ask the question.

PGI: Which licensed product has been your most successful?

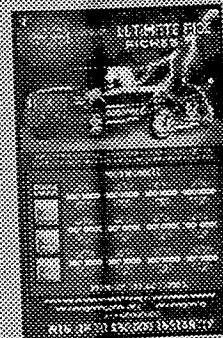
Steve Saferin: I can pick three. The property that has been the most successful has been Harley Davidson. Year in and year out for the past nine years it continues to perform very well. Most lotteries have offered multiple Harley games.

We've recently added a new feature to it. There is a Ford F-150 Harley Davidson truck and because of our Ford license we were able to combine that into one game called Ultimate Harley. The player can not only win a Harley Davidson motorcycle but also the Harley Davidson truck.

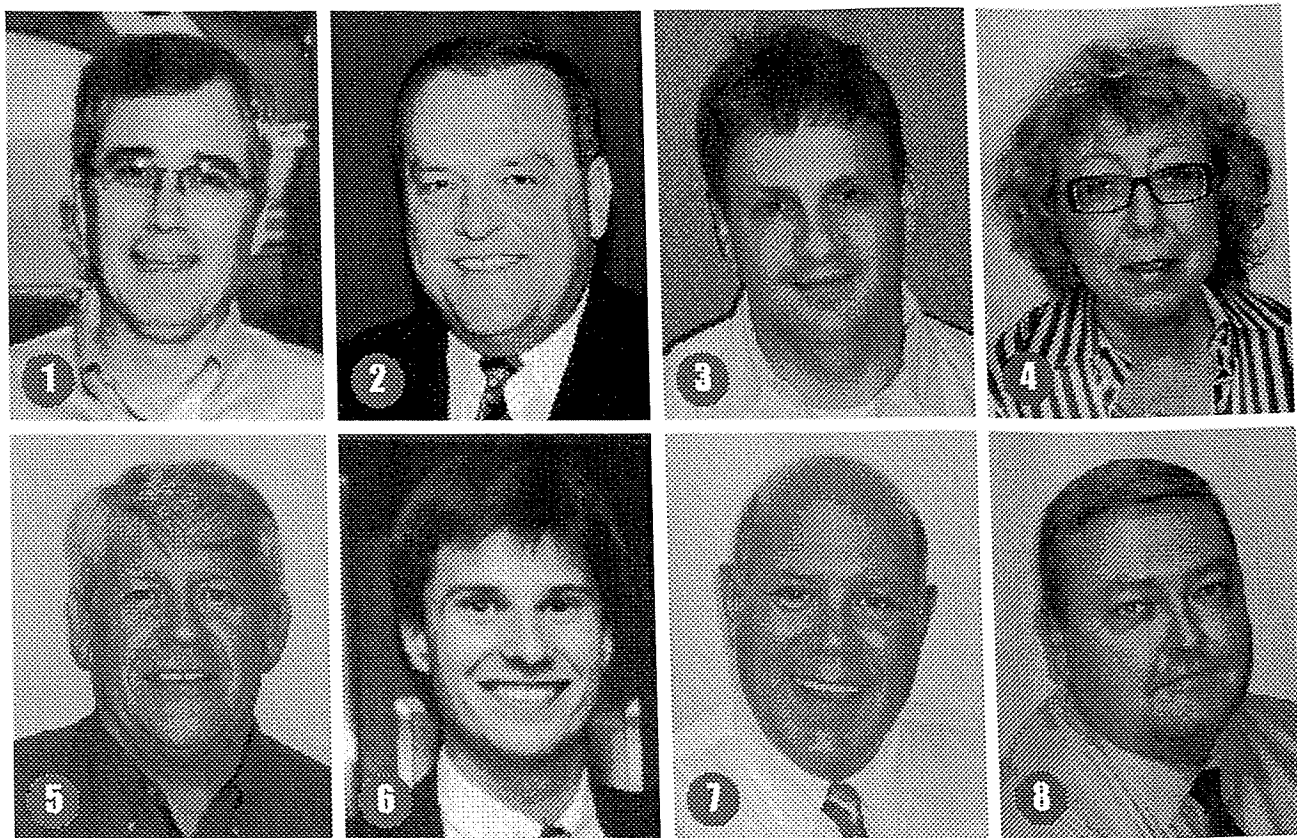
We have been licensing Wheel of Fortune games for over 10 years and it has remained a very steady performer generating numerous play styles. And no wonder, it is the most popular slot machine and the number one TV game show of all time.

More recently our family of Poker brands has been unbelievably popular. Both the World Series of Poker and the World Poker Tour have produced record sales results. And, while the competition has been furious in what we call the lottery "Poker Wars" there is no doubt that the World Series of Poker and the World Poker Tour are the gold standards of this category and their poker merchandise is incredibly popular with the public.

I would be probably be remiss not to mention Monopoly and one of our most recent success stories, Pac-Man.







- 1: MDI Executive VP Chuck Kline – former executive director of the Pennsylvania Lottery  
 2: MDI Senior VP of Merchandising & Product Development Don Walsh – former director of the Wisconsin Lottery  
 3: MDI Senior VP Integrated Marketing Jeff Schweg – former creative director of the Illinois Lottery  
 4: MDI VP of Sales Bev Opie – former director of marketing for the Iowa Lottery  
 5: MDI VP Internet Services Bob Kowalczyk – former director of marketing at the Ohio Lottery; and former director research & product development at the Florida Lottery  
 6: MDI Director of Creative and Client Services Paul Guziel – former marketing & communications manager of the Illinois Lottery  
 7: MDI Regional VP of Sales Greg Hoelk – former director of sales for the Hoosier Lottery and the Texas Lottery  
 8: MDI Integrated Marketing Manager Ron Williams – former deputy director of sales for the Idaho Lottery

"MDI originally stood for Media Drop-In Productions," said Mr. Saferin. "The term drop-in is a term of art in the broadcasting industry. What it refers to are very short, interstitial programs that are interjected into much longer broadcasts usually in commercial breaks. They are usually produced with a tease – you tease somebody about some fact – and then you break for commercial. Then you come back and pay off that tease."

Drop-ins became very popular in the early to mid 1980's as cable television penetration soared. By the mid '80's with cable television available in almost every market nearly 75 percent of television households had a remote control, up from just 10 percent in the late '70's. Advertisers were looking for a way to stop viewers from channel surfing and watch the commercials.

"I had this business plan to produce high quality drop-ins and sell them to national advertisers," said Mr. Saferin. "Through Linda I became acquainted with some investors in Fort Worth that were willing to put up money, so I moved to Fort Worth."

After putting out two productions, "Willie Nelson's True Tales of Texas" and "Darrell Royal's Playbook" (focusing on great moments in Texas Football), sold to Wrangler Jeans and Budweiser respectively, the Saferins came up with an idea of creating a drop-in series about lottery winners. With the consulting help of Ed Powers, the father of U.S. lotteries, the Saferins came up with an idea they could sell – a drop-in series called The New Millionaires with Alex Trebeck, where Trebeck, the host of Jeopardy!, told stories about lottery winners. Nine or ten states signed up and MDI was officially in the lottery business.

"I've always said that [hiring Ed Powers as a consultant] was the single smartest thing we ever did because Ed was a great man and unbelievably well respected," said Mr. Saferin. "I don't think we would have gotten as much traction as quickly as we did had he not been associated with us."

MDI continued its evolution after the Saferins saw a presentation of a Massachusetts game, "Green Stuff", in which the lottery gave



## MDI

away 650,000 Boston Celtics t-shirts. The idea was especially intriguing because Mr. Saferin had been mulling-over an idea to produce Great Moments in Sports videos tailored for each jurisdiction to use as a lottery prize. The idea evolved into MDI's Money, Movies and Music promotion that 25 lotteries eventually signed on to. Over five million CDs, audio cassettes and videos were given away in Money, Movies and Music over a three to four year period and MDI produced six "Great Moments" sports videos. As that promotion began to wind down, MDI began looking for other opportunities for its lottery customers. After considerable research the company developed the idea of licensing well-known entertainment properties, cultural icons and personalities and creating them into lottery games featuring those properties.

"One of the things that was important as we went out to talk to licensors was that we develop a viable business model. Lotteries did not have the kind of money that the top-flight licensors, like Wheel of Fortune, Elvis Presley Enterprises and Harley Davidson expected to receive when licensing their brand," said Mr. Saferin. "They're used to getting 10 to 15 percent of the wholesale price of the licensed product. Since lottery tickets don't have a wholesale price and lotteries don't have a lot of discretionary dollars for license fees it presented a unique challenge."

For the solution, MDI looked back on the merchandise model it had created for Money, Movies and Music. Rather than lotteries paying a licensing fee to use these brands they could take a portion of the prize fund and use it to buy merchandise. MDI would buy the merchandise from other licensees of the property and distribute it to lottery players as prizes.

"Our very first license was The Twilight Zone, but we quickly got Wheel of Fortune and Harley Davidson along with several others," said Mr. Saferin. "At the same time that this was going on in the Lottery industry, licensing of well-known brands was exploding in the slot machine industry. The gaming area was becoming more of a focal point for the owners of these various properties that were engaged in licensing."

"Now we've got 130 different brands that we represent to the lottery industry and the business has grown from a standing start to the point that



this year Scientific Games is going to print close to \$2.5 billion in licensed lottery games with the MDI brands. And of course we have spawned numerous competitors."

## Scientific Games

By 2003, MDI already had a significant presence in the lottery world, but then in January of that year something happened that would take the company farther than the Saferins could imagine. MDI was acquired by Scientific Games.

"The MDI business would have continued to grow without the merger but it certainly wouldn't have grown to this level this quickly without the expertise of Scientific Games and their influence in the instant ticket marketing

side of the business," said Mr. Saferin.

Looking back now, Scientific Games' acquisition of MDI was an excellent decision for not only both parties but the entire lottery industry – but hindsight is 20/20. At the time of the acquisition, not everyone was convinced it was the right move to make.

"If you go back three years before the merger, Scientific Games, with its previous management bought a small minority interest in MDI – six percent I believe," said Mr. Saferin. "We established a strategic marketing relationship with Scientific Games. That allowed them to get their feet wet and allowed us to test the theory we had that if we could get hooked up with an instant ticket vendor, particularly Scientific Games, we could significantly grow our business because they have significant input into the daily decisions made by lotteries. It worked okay, but it wasn't until Scientific Games completed the acquisition of MDI that we began to see all the synergies that could develop because of these two businesses being combined."

"There were some inside both Scientific Games and MDI that did not think it was such a good idea," said Mr. Saferin. It was only through the insistence of Scientific Games' CEO Lorne Weil that the transaction was finally consummated.

One of the things the acquisition has meant for both companies is one-stop shopping for customers. Lotteries don't have to worry about the communication between two different companies that previously had to come together to get an instant ticket out on the street. Now it's all under one roof.

The acquisition may have also boosted lottery confidence in MDI.

"The very fact that Scientific Games got involved in this gave customers more trust, faith and confidence in the entire process," said Mr. Saferin. "There's always a thought in the lottery business with small vendors of, what happens if they go out of business? Somebody's going to get stuck holding the bag. I don't know how prevalent that was in lottery's thoughts about MDI because we've been around for quite a while, but being part of SGI gives more confidence in the company, and the whole process and licensing in general."

## Online Games and the EGC

MDI is well known for the benefits its promotions can bring to the instant ticket side of the lottery business, but the company has yet to see much success in extending licensed brands to other types of lottery games. Efforts have been made to incorporate licensed properties into online games but none of the promotions have made

## 20-Year Highlights

- First Customer – New York Lottery – buying The New Millionaires
- Texas Lottery buys Money, Movies and Music – 800,000 videos distributed in promotion
- Obtaining NBA license – it's virtually unheard of for a sports league to cooperate with any form of gaming
- The birth of the Texas Hold 'Em phenomenon in lottery tickets, particularly Massachusetts \$10 Million Hold 'Em Poker
- MDI Acquired by Scientific Game

much of an impact.

The licensed formula has worked for instants because each instant game is a self-contained entity with an adjustable prize structure. Lotteries are able to take money out of an instant game's prize structure to buy merchandise. It's a revenue neutral event. If lotteries try to do that with an online game's pre-determined prize structure, the use of merchandise will only increase the lottery's payout on the game.

Licensed properties also work on instants because the tickets aren't confined to one particular size, and because instant tickets use four-color printing. Lotteries can build a flashy, eye-catching ticket that makes fans of a particular brand want to buy that branded ticket and makes the tickets stand-out at retail.

Online games, on the other hand, only offer one color printing on paper that has to fit through the ticket printer. "There are a lot of challenges to try and get these brands to come to life on the online side," said Mr. Saferin. "We continue to look for ways to do it and hopefully we'll be able to figure out how to unlock that potential."

In the meantime, Mr. Saferin in his other SGI role as President of Scientific Games Ventures is employing MDI's marketing expertise to work on several new potential products. One that's been getting a great deal of attention is the Electronic Game Card (see EGC article on page 8).

"There's no doubt in my mind that the Electronic Game Card has a role in the lottery industry today," said Mr. Saferin. "We are also working on branded executions of the EGC. As the Electronic Game Card represents a sort of pocket slot machine, there's no reason we can't have a branded pocket slot machine just like there are so many branded slot machines in Vegas."

As obvious as the EGC's future success may seem, the game does face some challenges. It is a very expensive product compared to the price of a standard paper ticket. Because it's such an expensive product it's impossible to envision a lottery doing it in anything other than a \$20 price point. Even at that it becomes a much more expensive product than a paper ticket as a percent of revenue. And, \$20 opportunities are limited.

"But," added Mr. Saferin, "price points are going up, so \$20 opportunities are going to expand as will price points above \$20. The more that happens, the more opportunities there will be for the Electronic Game Card."

#### Push Play, Internet and Monitor Games

SGI Ventures and MDI are developing another product called Push Play which is a little different than the EGC, but may solve the pricing issue. It's an electronic device into which players will insert paper tickets. "It's really a razor and a blade marketing approach where the electronic device is a razor and the paper ticket is the blade," said Mr. Saferin.

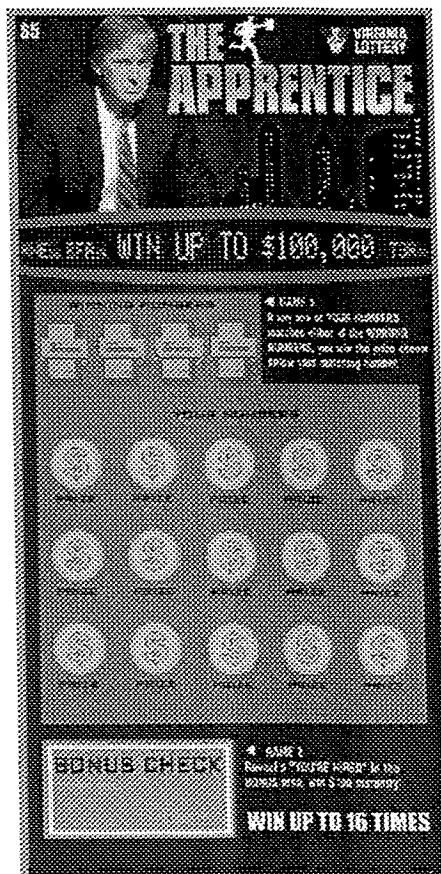
The Push Play device relies on conductive inks on the ticket to reveal a pre-determined result that plays out on the electronic device. "This is a product that we should be ready to commercialize in the first half of 2006," said Mr. Saferin. "We have pretty high hopes for it because it sort of solves the price point issue that we have with the Electronic Game Card. But, it's still in development."

One of the issues with Push Play is distribution of the electronic device. The device can hold up to 16 different games, and in theory, players would hold onto the device and keep buying tickets to play on it.

"Some of the things we've talked about is packaging the device with four or five tickets and having players buy the package. In addition the device could either be sold or given away," said Mr. Saferin. "We could make the device available as a stand-alone purchase by the lottery player or we could find ways to perhaps distribute it in giveaways. We're working on establishing what the final cost of the device is going to be and its configuration."

SGI Ventures and MDI are also developing a variety of internet executions – not only for generic games but also for its branded games. In fact, one country, Denmark, will soon launch a paper Pac-Man ticket that's going to have an internet game component.

Monitor games also hold a lot of promise for branded properties. "We've done some work with some of our brands to develop monitor games around them. For example we have a World Poker Tour or World Series of Poker Texas Hold 'Em monitor game that we are developing. It should be ready to commercialize shortly. We are working on Betty Boop, Yahtzee and a Pac-Man game as well."



#### The Future of MDI

What does the future hold for MDI? With an idea man like Steve Saferin at the helm, the possibilities for the company seem endless.

"We are currently working to expand our portfolio of licenses to offer our lottery customers the best and most relevant licenses," said Mr. Saferin. "We recently launched our first Apprentice game in Virginia featuring images of Donald Trump on tickets and in advertising."

"We need to continue to look for ways to develop lottery play on the Internet. We're developing a product we call Screenplay which allows a player to buy a lottery ticket at a brick and mortar retailer and go home and enter a code to reveal on the screen a predetermined result in some kind of a game play format. Branded games will play a significant role in our Screenplay offerings."

And, of course, the company will continue to look for new trends and new opportunities in the business.

"I think that's what we've been noted for," said Mr. Saferin. "Being on the cutting edge and developing new kinds of products and approaches for the industry. That's what we want to continue to do. And, of course, we want to continue to come up with new ideas to insure our booth remains the most popular at NASPL." ♦